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ROUTING AND TRANSMITTAL SLIP

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1. EXO/DDA		22 MAY 1986
2. ADDA		22 MAY 1986
3. DDA		22 MAY 1986
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EXECUTIVE SECRETARIAT
ROUTING SLIP

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4	D/ICS				
5	DDI				
6	DDA		X		
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8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt		X		
13	D/OLL				
14	D/PAO				
15	VC/NIC				
16	D/PERS		X		
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Remarks

STAT

Executive Secretary

21 May 86

Date

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Executive Registry
86-2046X

MINUTES
DOMESTIC POLICY COUNCIL

May 7, 1986
11:00 a.m.
Roosevelt Room

DDA/REG
LOGGED

Participants: Messrs. Meese, Pierce, Sprinkel, Ms. McLaughlin, Messrs. Brown, Wright, Bledsoe, Ms. Horner, Messrs. Kingon, Svahn, Tuttle, Tuck, Ms. King, Messrs. Petroskey, Vest, Cox, Newman, Cribb, Ms. Dunlop, Messrs. Morrison, Davis, Kubic, Gray, Ms. Crawford.

Personnel Reduction Policy

100-20

Attorney General Meese began the meeting by briefly discussing the Administration's personnel reduction efforts during the first term. He introduced Mrs. Horner, who noted that despite specific reductions in non-defense employees, there has been a growth in total Federal employment. Mrs. Horner indicated that she has been asked to testify on the Roth-Stevens early retirement proposal which could produce additional workforce reductions by as many as 60,000 people, far exceeding the FY 87 budgeted reductions of 20,200. While the Roth-Stevens proposals are politically attractive and consistent with previous policy, Mrs. Horner said we must examine current commitments to workforce reductions, and decide whether the Administration's goal can be safely reached using this approach. She added that other options are available under which employees might voluntarily retire. Mr. Svahn pointed out that voluntary reductions are possible, if we are willing to pay a high price. Mrs. Horner agreed, and said the question is how to safely reach the reduction goal. She proposed support of early retirement legislation which would include flexible backfilling, if it is the will of the Cabinet. She felt that good management will avoid RIFs, and pointed out that each voluntary early retirement which is not backfilled would save $130,000 (over 5 years) whereas each RIF would save $86,000 over the same period. More people will likely leave government if voluntary early retirement is offered, but it might also provide a means to reduce the GS 11-15 bulge. Mrs. Horner asked the Council to consider whether it is more important for Departments to keep the current workforce size or to reduce it.

Secretary Pierce felt that more time is needed before a decision is made, so that the issue can be discussed with field managers. Mr. Brown expressed Commerce's concern over losing good employees in critical occupations, and felt that flexibility is needed to offer early retirement opportunities only to certain employees. Mrs. Horner explained that some mechanism would be needed to determine critical occupations, and that legislation would be necessary to authorize selective rehiring. She added that Congress may be reluctant to support legislation to authorize

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targeted early outs. Mrs. McLaughlin stated that Interior welcomed the overall approach, but wanted to examine the impact on a bureau by bureau basis.

Mr. Wright said that early retirements are superb for the private sector, but that the Federal government lacks the flexibility to implement such a program. He thought a targeted approach could be helpful, but stated that the Council should focus on responses to Sen. Roth's proposal. He questioned whether massive RIFs will be needed to implement next year's budget, and felt an acceptable early retirement bill could be negotiated at a later date if major reductions become necessary under Gramm-Rudman-Hollings provisions. He felt that we should not submit a bill to Congress in anticipation of RIFs under G-R-H. Mr. Wright said the President should determine the size of the Federal workforce, not the employees. He expressed concern over the maldistribution of employees that could result from the combination of random retirements, hiring freezes, and legislated employment floors. Mrs. Horner agreed that a 5-year freeze is not desirable. Mr. Wright felt that the staff work on this issue has not been adequately completed, and that the Council should develop the Administration's list of concerns with the current bill, and provide Sen. Roth with our recommendations.

Mr. Sprinkel agreed with Mr. Wright, and pointed out that the Administration has opposed early retirement ages in Federal retirement plans. He felt we give up too much control if we rely on Congress, and that we should seek authority to target the sectors which the Administration wants to shrink. Mrs. Horner added that the Council needed to weigh the two competing goals of workforce reduction and overall retirement policy before endorsing or rejecting the one-time opportunity offered by the Roth bill. Mrs. McLaughlin stated that in addition to the goals, managers need the flexibility in order to manage. Mr. Brown said that he preferred managers being able to determine who can retire. Mrs. Horner explained that managers can currently ask OPM for early out authority. Mr. Meese expressed concern that under current authority early retirement could be elected by the best employees for economic reasons, while marginal employees may not choose to risk entering the private sector, also for economic reasons. He felt that employment floors may be unconstitutional. Mr. Meese concluded by pointing out that the immediate problem is to respond to Sen. Roth regarding the positive early retirement features we would accept. He said the Working Group on Management and Administration should work with OPM and OMB to develop a response for Sen. Roth. As a minimum, the Administration should respond that we require flexibility for selective early outs, elimination of employment floors, and Presidential control of freezes.

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Federal Civilian Retirement Plan

Mr. Wright briefed the Council on the new Federal retirement plan currently pending before the conference committee. He pointed out that the Administration's early cost goal of 18% of payroll for a new retirement plan had been replaced by a limit of 21.9%, as negotiated between Mr. Regan and Sen. Stevens last summer. He explained that the conference bill is currently estimated to cost 22.9% of payroll. Mrs. Horner pointed out that each percentage point is worth $800 million. Mr. Wright said that the conference bill would raise the early retirement age from 55 to 57, would eliminate the COLA before age 62, limit the COLA after age 62, and include a thrift plan based on employee contributions. Mr. Wright and Mrs. Horner were to meet with Congressional conferees that afternoon to try to reduce the overall cost, eliminate the proposed supplement for those retiring before age 62, delete a provision which adds a 401(k) plan to the current retirement system, and eliminate or require a lengthier vesting time for the proposed initial 1% government 401(k) contribution. If agreement is reached, a temporary extension of current legislation which precludes payment of both the full retirement contribution and Social Security is likely. If agreement could not be reached, "double coverage" payments would begin this month.

Alternative Personnel System

Mr. Meese informed the Council that the President had approved the Council's recommendation to propose an alternative personnel management system. Mrs. Horner added that proposed legislation has been submitted to OMB for clearance. Mr. Meese asked if similar legislation being supported by David Packard would be held up by our proposal. Mrs. Horner responded that OPM is working to ensure that the two initiatives are compatible. Mr. Meese asked if the new system would be phased in, to which Mrs. Horner replied that a phased approach is plannned. Mr. Wright added that any new system need not increase costs, but control is very important. Mrs. Horner confirmed that the system to be introduced will be budget-neutral.

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